

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: CFED, EFIN, SZ

SUBJECT: SEC ACTION AGAINST AMERICAN INSTITUTE COUNSELORS AND OTHERS

REF: STATE 280860

1. AS ANTICIPATED IN REFTEL, CERTAIN ASPECTS OF THE SEC ACTION AGAINST THE SWISS CREDIT BANK, AND IN PARTICULAR THE ROLE OF THE FEDERAL DISTRICT COURT IN THE MATTER, HAS CAUSED SOME IRRITATION IN

ZURICH. IN GENERAL, HOWEVER, REACTION WAS RESTRAINED. THERE HAS BEEN NO EDITORIAL COMMENT IN THE DAILY PRESS AND ONLY ONE MILDLY CRITICAL EDITORIAL IN "FINANCE UND WIRTSCHAFT" ON THE JURISDICTIONAL QUESTION.

2. THOUGH THE IMPLICATIONS OF THE SEC AND COURT ACTIONS ARE NOT YET CLEAR, THE BANKING COMMUNITY SENSES THAT THEY ARE LIKELY TO BE PRECEDENT-SETTING AND FAR-REACHING. DESPITE THIS, WITH A FEW EXCEPTIONS, EVEN THE BANKERS SEEM TO BE ACCEPTING THE SITUATION WITH SURPRISING EQUINIMITY. THEIR ATTITUDE SEEMS TO BE THAT THERE IS LITTLE THAT CAN BE DONE EXCEPT TO ALLOW THE PROCEDURAL AND JURISDICTIONAL QUESTION TO BE SETTLED FIRST WITHIN THE US JUDICIAL FRAMEWORK (INCLUDING ULTIMATE APPEAL TO THE SUPREME COURT IF NECESSARY) AND THEN TO LATER ADDRESS THE SUBSTANCE OF THE

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SEC CHARGES. THEY REALISTICALLY RECOGNIZE THAT LITTLE COULD BE

ACCOMPLISHED AT THIS STAGE THROUGH BOMBAST OR A PR CAMPAIGN.

3. ON THE SUBSTANCE OF THE CASE, IT IS FAIRLY WELL ACCEPTED HERE THAT THE HARWOOD ORGANIZATION HAS PROBABLY COMMITTED TECHNICAL VIOLATIONS OF SEC LAW AND REGULATIONS BY SELLING UNREGISTERED SECURITIES. HOWEVER, I HAVE NOT TALKED TO A SINGLE ZURICH BANKER WHO BELIEVES THAT THE SEC WILL BE ABLE TO PROVE ITS ALLEGATIONS OF FRAUD OR ATTEMPTED FRAUD AGAINST HARWOOD. SEVERAL HAVE COMMENTED THAT ULTIMATELY THE SEC MIGHT BE EMBARRASSED BY THE FACT THAT THEIR CHARGES OF FRAUD MAY NOT HOLD UP.

4. HARWOOD IS WIDELY KNOWN IN THE ZURICH BANKING COMMUNITY. THOUGH HE IS REGARDED AS SOMEWHAT OF AN ECCENTRIC AND AS A FANATICAL "GOLD BUG" HE HAS ALSO BEEN DESCRIBED AS A "MAN OF INTEGRITY" AND A "STRAIGHT SHOOTER." I HAVE HEARD SIMILAR COMMENTS FROM ENOUGH PEOPLE TO CON-

CLUDE THAT HIS REPUTATION IN SWISS BANKING CIRCLES IS POSITIVE.

5. SEVERAL BANKERS HAVE TOLD ME THAT SWISS AUDITORS HAVE RECENTLY SCRUTINIZED THE HARWOOD ACCOUNTS IN ZURICH AND GIVEN HARWOOD A CLEAN BILL OF HEALTH. REPORTEDLY, ALL CASH, GOLD, COINS, SHARES ETC. ARE ACCOUNTED FOR.

6. IN A SIMILAR VEIN, A CREDIT SWISS OFFICIAL HAS TOLD ME THAT THE BANK HAS RECEIVED MAIL ON THE HARWOOD CASE, BUT NOT A SINGLE EXPRESSION OF CONCERN FROM A HARWOOD CLIENT OR INVESTOR. NELSON

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